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DE RUEHUJA #2104/01 3241159
ZNY CCCCC ZZH
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FM AMEMBASSY ABUJA
TO RUEHC/SECSTATE WASHDC IMMEDIATE 7535
INFO RUEHOS/AMCONSUL LAGOS 2328
RUEHSA/AMCONSUL JOHANNESBURG 0132
RUEHZK/ECOWAS COLLECTIVE
RHEBAAA/DEPT OF ENERGY WASHDC
RUCPDOG/DEPT OF COMMERCE WASHDC

C O N F I D E N T I A L SECTION 01 OF 04 ABUJA 002104

SENSITIVE
SIPDIS

STATE PASS USAID AFR/SD FOR CURTIS, ATWOOD AND SCHLAGENHAUF
STATE PASS TO USTDA-PAUL MARIN, EXIM-JRICHTER
STATE PASS TO USTR-LAURIE-ANN AGAMA
STATE PASS TO OPIC-BARBARA GIBIAN AND STEVE SMITH
STATE FOR EEB/ESC/IEC/ENR-DAVID HENRY, CBA
STATE PASS TO S/CIEA-DAVID GOLDWYN AND MICHAEL SULLIVAN
JOHANNESBURG FOR JASON NAGY
USDOE FOR GEORGE PERSON AND THOMAS SPERL
TREASURY FOR ANTHONY IERONIMO, ADAM BARCAN
DOC FOR 3317/ITA/OA/BURRESS AND 3130/USFC/OIO/ANESA/REED

E/O. 12958: n/a

TAGS: [ENRG](#) [EPET](#) [EINV](#) [ETRD](#) [ECON](#) [NI](#)

SUBJECT: S/CIEA GOLDWYN DISCUSSES PETROLEUM INDUSTRY BILL WITH
WESTERN AMBASSADORS AND IOC REPRESENTATIVES

[1A](#). ABUJA 2063

[1B](#). ABUJA 1400

Classified By: Ambassador Robin R. Sanders for reasons 1.4. (b
& d).

SUMMARY

[11](#). (C) Coordinator for International Energy Affairs (S/CIEA) David Goldwyn and Ambassador Sanders met with the Dutch, French, and Italian ambassadors and the U.K. Deputy High Commissioner (DHC) to discuss the status of the GON's Petroleum Industry Bill (PIB) on November 10. The Dutch Ambassador described Shell International Chief Executive Officer (CEO) Peter Voser's crucial October 24 meeting with Nigerian President Umaru Musa Yar'Adua which set the stage for constructive meetings with the IOCs and resolution of differences over the future of petroleum contracts. Goldwyn and Ambassador Sanders subsequently met with Chevron and Shell executives to discuss the PIB on November 11. Shell said concern remained over the size of the future exploration blocks, a shorter relinquishment period, and a lack of movement on taxes and international arbitration. Chevron said that the key outstanding issues involved triple taxation and the grandfathering of project savings provisions. The IMF has identified gas as a major concern in the tax regime and believes the bill has gone too far in changing the tax regime for off-shore oil production. END SUMMARY.

SHELL CEO PETER VOSER'S VISIT

[12](#). (C) Coordinator for International Energy Affairs (S/CIEA) David Goldwyn and Ambassador Sanders met with the Dutch, French, and Italian Ambassadors and the U.K. Deputy High Commissioner (DHC) to discuss the status of the GON's Petroleum Industry Bill (PIB) at a dinner meeting on November 10. The Dutch Ambassador began discussion of the PIB by referring to Shell International CEO Peter Voser's "crucial meeting" with President Umaru Musa Yar'Adua and Minister of Petroleum Resources Rilwanu Lukman on October 24. The Dutch Ambassador said that Minister Lukman tried his best to derail the visit and that this indicated a struggle within the GON regarding how

to deal with the international oil companies (IOCs). Voser was happy with the visit because he was able to present the IOCs' views and found "a listening ear" in Yar'Adua. Yar'Adua confirmed that his agenda did not include nationalization and a search for other partners (i.e., the Chinese National Oil Company). Yar'Adua also said he wanted to hear the IOCs' views and was "shocked" about the criticism of the PIB.

13. (C) The Dutch Ambassador continued that constructive meetings occurred with Shell and the other IOCs immediately after the Voser visit. These meetings "almost concluded" the resolution of differences over the future of on-shore petroleum contracts in the PIB. The meetings also came to closure on some key areas regarding off-shore petroleum contracts but a few areas of differences remained, such as who will explore where, but both sides agreed that the IOCs cannot leave large areas idle for long periods of time. They did not discuss tax issues in detail. The Dutch Ambassador concluded that Shell got more than they had expected but they still have "a long road ahead." He also noted that the Shell International headquarters in The Hague was "slightly less positive" than Shell Nigeria and that some changes had occurred in the PIB since the IOC meetings.

A CHANGE IN TENOR

14. (C) The U.K. DHC observed that the IOCs had had "a lack of access" to the GON "at the highest level" over the last nine months. Yar'Adua is now trying to be transparent and reassuring on the investment climate and fiscal issues. The U.K. DHC said that his High Commission had heard the same thing from Nigerian National

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Petroleum Company (NNPC) General Managing Director Dr. Mohammed Barkindo, but now the same message is being delivered by Yar'Adua. Now that Yar'Adua has spoken, the whole tenor has changed and the IOCs have access "all the way down to the lowest levels." The IOCs remain unclear about where the PIB is going, but they are less fearful than before.

15. (C) The Italian Ambassador reported that the Agip executives in Lagos are in a positive mood, are committed to staying in Nigeria, and are discussing further investment.

LUKMAN'S RELATIONSHIP WITH YAR'ADUA

16. (C) Ambassador Sanders asked the group if Lukman still has the confidence of Yar'Adua after his now failed attempt to prevent the IOCs from meeting with Yar'Adua. The Dutch Ambassador responded that Lukman is still part of Yar'Adua's intimate circle. Nevertheless, Lukman is "very tough" on the need for deregulation of the downstream oil and gas sector and this is a political problem for Yar'Adua. Lukman thinks he can leave a legacy on PIB and downstream deregulation. Lukman may have overplayed his hand and might not survive. (Reftel A)

17. (C) The Dutch Ambassador commented that Lukman is not a radical. Lukman had gone so far as to tell the Dutch Ambassador that Yar'Adua is a leftist and that he must be corrected. The Dutch Ambassador described Lukman as very sound in his thinking. Nevertheless, the Dutch Ambassador did not know Lukman's agenda nor why he suddenly had become so intransigent.

18. (C) Ambassador Sanders responded that Lukman has a short-term agenda and believes that if he is flexible, the PIB will not happen this year. She also commented that Lukman might change if he receives the same message from the World Bank when he travels to Washington during the week of November 16 that Minister of Finance Mansur Muhtar heard from the IMF in October. The key will be what happens when he comes back from Washington.

¶9. (C) The Dutch Ambassador expressed concern that the U.S., U.K., Dutch, French, and Italian embassies had missed an opportunity to come together to tell the GON what their respective governments and the IOCs think about the PIB. The embassies have instead taken an ad-hoc approach which has diluted the message. The embassies should now consider a joint approach and not leave it to the IOCs to approach the GON. The U.K. DHC responded that the U.S., U.K., French, and Dutch embassies had made a joint multi-lateral demarche last July, to no effect. (Reftel B). The French Ambassador argued that after the July demarche he thought it was better for the embassies to approach the GON individually.

¶10. (C) Ambassador Sanders recalled that the embassies had asked the IOCs in January 2009 for a copy of their common paper for use when they approached the GON. The IOCs never provided the paper and this had impeded the embassies' ability to act in January on the points the IOCs wanted action on. The embassies had also advised the IOCs that they should begin lobbying the National Assembly as well as the Executive Branch. The companies only acted on this advice when the National Assembly held a public hearing on the PIB in July, when they asked their respective embassies to make the joint demarche. The IOCs have come a long way since that time and now recognized that they have to develop constituencies outside the petroleum sector.

CHEVRON AND SHELL EXECUTIVES DISCUSS THE PIB

¶11. (C) Goldwyn and Ambassador Sanders subsequently met with Shell Commercial Vice President Peter Robinson and Chevron Deepwater and PCS Department Director Kenneth Sample to discuss the PIB on November

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¶11. Goldwyn asked Robinson to explain where the GON was with the PIB, where it was going, and what was the end game. Robinson explained that Voser's meeting with Yar'Adua on October 24 created an opening, helped Yar'Adua see that concerns existed about the PIB, and triggered an important meeting between Jonathan and the IOCs on October 28. Jonathan said he would bring together a panel of independent experts to put together a compromise and that was the first stage of dialogue. This process also created space for Minister of Finance Muhtar to express his concerns about the fiscal implications of the PIB. There are also a series of "political meetings" taking place.

¶12. (C) Robinson continued that the on-shore production issues had been "solved" and progress had occurred with many off-shore issues as a result of the meeting with Jonathan. He remained concerned about the size of the future exploration blocks, a shorter relinquishment period, and the lack of movement on taxes and international arbitration. According to Robinson, the end game will take place on November 18 after the House and Senate returned from their respective legislative retreats and can begin to reconcile the House and Senate versions of the bill. This has caused the IOCs' current focus to be almost entirely on the National Assembly. Robinson does not think the bill will pass before the end of the year because the National Assembly goes into recess on December 15 but believes there is a good chance that the bill will pass during the first quarter of 2010. (COMMENT: Mobil Producing Nigeria Unlimited Commercial Manager Patty Halladay, the Mobil point-person on the PIB, told Energy Officer on November 18 that the House and Senate both awaited a GON interagency report on the PIB before attempting to reconcile the House and Senate versions of the bill. She added that the only real movement in the fiscal area involved production allowances. No movement occurred on key issues like royalty rights, taxation, deductions, enablers for dry gas, etc. Finally, she reported that it was understood within the interagency process that Yar'Adua wanted the bill passed before the end of the year. END COMMENT.)

¶13. (C) Sample said that the key outstanding issues included triple taxation and grandfathering of project savings provisions. Chevron now thinks that one of two things could happen before the end of the

year. The first potential outcome is that the National Assembly could pass the bill now, even though there are problems with the text, and try to fix it later. The second is that the National Assembly could take the time to work with the IOCs to correct the bill now and pass it early next year.

¶14. (C) Goldwyn asked if the IMF's recent review of the PIB agreed with IOCs concerns on the troublesome provisions of the PIB. Robinson said they agreed in broad terms and the IMF has identified gas a major concern in the tax regime. The IMF also thinks the bill Qgas a major concern in the tax regime. The IMF also thinks the bill has gone too far in changing the tax regime for off-shore oil production. First, there will be implications for the new Incorporated Joint Ventures (IJVs) on GON Control, the amount of taxes paid to the Federation Account, and the bankability of future projects. Second, the bill proposes very rapid implementation in three months or one year. The bill proposes to move from six unincorporated to six incorporated joint ventures in just one year. As a result, more than \$8-10 billion in bank debt will be needed in the first year, just for oil projects, when the market currently provides only \$1 billion per year for this type of project.

INTERNATIONAL AND DOMESTIC CONSULTANTS

¶15. (C) Robinson added that three sets of consultants advised different parts of the GON on the PIB. Dutch consultant Dr. Pedro van Meurs worked with NNPC Group General Manager, Strategy Dr. Timothy Okon; Nigerian legal firm Babalakin and Company worked with the House PIB Committee; and Nigerian consulting firm Edingwe worked with the Senate PIB Committee. Van Meurs is the only consultant working on the first version of the PIB, which is the only one that will be passed. The IOCs consider the Senate to be a "lost cause" as far as protecting the interests of the IOC goes, so they are focusing their lobbying efforts on the House and Yar'Adua.

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¶16. (C) Ambassador Sanders expressed concern that National Assembly members were not informed enough about the oil and gas industry. The question is how to educate the PIB committee members to bring them along to pass an acceptable bill. Robinson doubted the likelihood of this. He thought members in both houses would simply want the IOCs to say they accept the bill and sign it. The IOCs must explain what will not work. The situation is further complicated by the fact that no one in the PIB committees in both houses can draft the necessary clauses for the bill. That task may go to consultant van Meurs, but that will not be good. Nigerian consultant Babalakin might also play a role. (COMMENT: Van Meurs is the consultant who advised the Venezuelan government on the most recent revisions of its petroleum fiscal legislation. END COMMENT.)

COMMENT

¶17. (C) Shell CEO Voser's October 24 meeting with Yar'Adua represented a turning point in the development of the PIB. Some of the IOCs' concerns with the PIB have been resolved and the main outstanding issues have to do with the level and structure of taxation and the unrealistically short amount of time for putting the PIB into place. These changes (although not enough) came just in time, as the PIB appears to be headed for passage before the end of this year or early next year. Delay in passage of the PIB beyond early 2010 could allow political electioneering to distract legislators from giving due attention to the bill.

SANDERS